MORTGAGE

Removing private mortgage insurance

By Bankrate.com • Bankrate.com

If you secured a home loan with less than a 20 percent down payment, chances are your lender required you to buy mortgage insurance to cover its exposure in case you default.

Once your equity position in the home reaches 20 percent, however, you will want to stop paying mortgage insurance -- that is, if you have private mortgage insurance. (The rules for Federal Housing Administration-insured loans are different from the rules for private mortgage insurance described in the rest of this article. If you got an FHA-insured loan after mid-2013 and the down payment was less than 10 percent, you will pay monthly insurance premiums for the life of the loan.)

Know your rights

By law, your lender must tell you at closing how many years and months it will take you to pay down your loan sufficiently to cancel mortgage insurance.

Most homebuyers ask that mortgage insurance be canceled once they pay their loan balance down to 80 percent of the home's original appraised value. When the balance drops to 78 percent, the mortgage servicer is required to cancel mortgage insurance. Mortgage servicers also must give borrowers an annual statement that shows who to call for information about canceling mortgage insurance.

Getting down to 80 or 78 percent

To calculate whether your loan balance has fallen to 80 or 78 percent of original value, divide the current loan balance (the amount you still owe) by the original appraised value (most likely, that's the same as the purchase price).

Formula: Current loan balance / Original appraised value

Example: Dale owes $171,600 on a house that cost $220,000 several years ago.

$171,600 / $220,000 = 0.78.

That equals 78 percent, so it's time for Dale's mortgage insurance to be canceled.

If you can't persuade your lender to drop mortgage insurance, consider refinancing. If your home value has increased enough, the new lender won't require mortgage insurance. Make sure, however, that your refinance costs don't exceed the money you save by eliminating mortgage insurance.

Lenders can impose stricter rules for high-risk borrowers. You may fall into this high-risk category if you have missed mortgage payments, so make sure your payments are up to date before asking your lender to drop mortgage insurance. Lenders may require a higher equity percentage if the property has been converted to rental use.

No more mortgage insurance

Here are steps you can take to get out from under mortgage insurance even sooner or strengthen your negotiating position:

- **Get a new appraisal:** Some lenders will consider a new appraisal instead of the original sales price or appraised value when deciding whether you meet the 20 percent equity threshold. The cost of an appraisal generally runs from $300 to $500.
- **Prepay on your loan:** Even $50 a month can mean a dramatic drop in your loan balance over time.
- **Remodel:** Add a room or a pool to increase your home's market value. Then ask the lender to recalculate your loan-to-value ratio using the new value figure.

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